



Monetary Authority of Singapore

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

February 2006

1 INTRODUCTION

1.1 OVERVIEW

1.1.1 The Board of Directors (Board) and senior management¹ of an institution play pivotal roles in ensuring a culture and an environment of sound risk management. They are entrusted to be the custodians of good corporate governance, the prerequisite for sound risk management. This chapter highlights the corporate governance roles of Board and senior management as they pertain to risk management. It should be read in conjunction with the “Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers Which are Incorporated in Singapore”². Other relevant industry standards should also be taken into account where appropriate.

1.1.2 While this chapter provides guidance to locally incorporated financial institutions, foreign domiciled institutions should also be guided by the spirit of the guidelines.

1.2 FUNDAMENTALS

1.2.1 The Board and senior management of an institution fulfil distinct corporate governance roles and responsibilities. The Board is ultimately accountable to stakeholders, including shareholders, for the success and financial soundness of the institution. To this end, it is responsible for charting corporate strategy, monitoring managerial performance and enhancing returns to shareholders, while preventing conflicts of interest and balancing the competing demands on the institution. Senior management, on the other hand, bears the general executive responsibility for the day-to-day conduct of business and affairs of the institution. It is responsible for creating an

¹ It is recognised that there are significant differences in legislative and regulatory frameworks across countries between the functions of the Board of Directors and senior management. In some countries, the Board has the main, if not exclusive, function of supervising an executive body (comprising senior and general management) to ensure that the latter fulfils its duties. For this reason it is sometimes known as the supervisory Board. In such cases, the Board has no executive powers. By contrast, in other countries, the Board has broader responsibilities but delegates many of them to Senior Management. Because of these differences, the terms “Board” and “senior management” are used in these guidelines to identify two decision-making functions within an institution but not to identify legal constructs.

² Issued by the Monetary Authority of Singapore in Sep 2005.

accountability framework for the staff, but should be cognisant that it is ultimately accountable to the Board for the performance of the institution.

1.2.2 While it performs an oversight function, the Board may delegate to senior management the authority to run the institution's day-to-day operations. The Board, however, bears the ultimate responsibility for ensuring that the institution's operations comply with Board approved policies, applicable laws and regulations, and are consistent with sound and prudent practices.

1.2.3 Notwithstanding its ultimate responsibility for the conduct of the institution's operations, the Board should consider carefully the extent and nature of the demands that will be placed on it and identify areas that could appropriately be addressed by Board committees. Such committees can handle matters requiring detailed review or in-depth consideration. However, the Board should recognise that no delegation is absolute. For example, while an Audit Committee plays an important role assisting the Board in establishing, maintaining and developing the control systems and compliance culture of the institution, it is the Board that must bear the ultimate responsibility of overseeing the audit function.

1.2.4 The Board and senior management must ensure that the institution has a succession planning process to promote smooth management transition and minimise operational disruptions arising from changes in key personnel. Management of succession planning should be an active ongoing process, integrated with the institution's strategic plans.

2 RISK MANAGEMENT

2.1 The Board and senior management should be fully aware of, and understand, the risks associated with the institution's business activities. They should ensure that such activities, under diverse operating circumstances, are:

- conducted in a safe and sound manner and in line with high standards of professionalism and sound business practice;
- consistent with the institution's risk management philosophy and business strategy; and
- subject to adequate risk management and internal controls. This requires the institution to have proper policies and procedures, risk measurement and reporting systems and independent oversight and control processes.

2.2 The Board, or an authorised senior management group³, is responsible for establishing comprehensive and adequate written policies and procedures for the institution's business activities, and the management of the risks inherent in these activities. These should clearly:

- delineate the lines of authority and the responsibilities of the Board, senior management and other personnel for managing risk;
- set out the scope of activities of each group in the institution responsible for risk management;
- identify pertinent risk management issues including, where applicable, the appropriate risk and control limits, the reporting of risk positions and performance, capital requirements, accounting treatment and standards, and

³ While the term "Board of Directors and senior management" has been used broadly in the guidelines to provide institutions with the flexibility to decide on the appropriate level of authority appropriate for the task at hand, the interpretation of this term should be consistent with the general principles stated in the "Fundamentals" section.

investigation and resolution of irregular or disputed transactions.

2.3 The Board should approve policies pertaining to the evaluation and management of risks. These approved policies should cover areas such as managerial oversight and structure; the degree of risk tolerance of the institution; approved activities, markets and types of instruments; business strategy regarding client-driven trades, market-making and proprietary trading; business continuity recovery strategies; and risk management methodologies. The Board should be regularly kept informed of the institution's risk exposures, business direction and significant transactions, and periodically re-evaluate significant risk management policies, placing emphasis on the institution's financial objectives and risk tolerance. The institution's risk strategy should be reviewed by the Board at least once a year or more frequently if market conditions warrant. The Board should also conduct and encourage discussions and communication with senior management, and between senior management and other staff, on the institution's risk management policies and processes and risk exposures.

2.4 Senior management should be responsible for implementing the policies and procedures for conducting the risk strategy and policies approved by the Board. It should ensure that the institution has effective risk management and control processes, reliable risk measurement and reporting systems, and competent staff for sound risk management. Senior management should also review periodically the adequacy and appropriateness of the institution's policies and procedures, and risk management processes. The review should cover the methodologies, models and assumptions used to measure risk and limit exposures, performance and capital position, as well as internal control procedures. Deficiencies should be promptly remedied. Senior management should also be responsible for ensuring that business continuity plans have been prepared. These plans should be periodically reviewed and tested so that important changes in the risk environment are assessed and catered for.

2.5 As part of its executive functions, senior management should periodically review selected individual transactions, and the aggregate portfolio for compliance with the institution's risk strategy and policies.

2.6 It is the responsibility of the Board and senior management to ensure that the institution maintains sufficient capital to support the risk exposures that may arise from its business activities. Hence, there should be mechanisms to inform them of significant changes in the institution's activities

that would warrant a review of the adequacy of capital supporting these activities.

2.7 While senior management might typically delegate some of its risk management responsibilities to other committees or personnel, its accountability cannot be delegated. Senior management should continue to exercise appropriate oversight to ensure that delegated responsibilities are effectively carried out. In this regard, all committees with risk management responsibilities should have written terms of reference with clearly defined objectives, roles, responsibilities and delegation criteria.